

EAST JORDAN HOUSING COMMISSION  
EAST JORDAN, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>East Jordan Housing Commission</i>	County <i>Chippewa</i>
Audit Date <i>12/31/04</i>	Opinion Date <i>7/6/05</i>	Date Accountant Report Submitted to State: <i>7/15/05</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA, PC</i>			
Street Address <i>1107 E. 9th Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49606</i>
Accountant Signature <i>Barry E. Gaudette CPA</i>			

EAST JORDAN HOUSING COMMISSION  
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INTRODUCTION

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686  
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***Independent Auditor's Report***

Board of Commissioners  
East Jordan Housing Commission  
East Jordan, Michigan

We have audited the accompanying statements of financial statements of the business-type activities of the East Jordan Housing Commission, Michigan, a component unit of the City of East Jordan, as of and for the year ended December 31, 2004, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the East Jordan Housing Commission, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of December 31, 2004.

East Jordan Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2005 on our consideration of East Jordan Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise East Jordan Housing Commission, Michigan's basic financial statements. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bary E. Thudeth, CPA, PC*

July 6, 2005

EAST JORDAN HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
December 31, 2004  
=====

The East Jordan Housing Commission, created in 1967, by the City of East Jordan provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for East Jordan Housing Commission consists of two programs. The first is owned housing, consisting of 28 units of public housing and the second is the capital funding program. East Jordan Housing Commission had total revenues of \$147,403 that includes \$84,526 in rental payments and \$54,362 in federal assistance. Total operating expenses were \$151,264, that includes \$53,212 in administrative expenses, \$24,389 in utilities, \$24,909 in ordinary maintenance expenses, and \$27,469 in depreciation expense. Total revenues were more than the prior year by \$16,770, due to an increase in rents and federal funding. Operating expenses increased by \$26,557 over the prior year due, in part, to increases in administration of \$7,411 and maintenance costs of \$10,626.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$541,645. The Housing Commission's total net assets decreased by \$3,861 from the prior year. This is due mostly to an increase in operating expenses over the prior year of \$26,557.

Total assets of the Housing Commission were \$574,943 including \$274,221 of current assets and \$300,722 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$33,298. Assets increased by \$6,596 from the prior year due in part to an increase in property and equipment that was offset by an increase in current liabilities. The current assets decrease of \$5,129 and the current liabilities increase of \$10,457, resulted in a net change of \$15,586. This net decrease can mostly be attributed to the purchase of capital assets.

The financial condition of the Housing Commission has not changed materially from the prior year, although the Net Assets did decrease by \$3,861 from the prior year. The Housing Commission remains very strong with a balance of \$274,221 in current assets.

EAST JORDAN HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)

December 31, 2004

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**Financial Highlights (continued)**

The Housing Commission during the fiscal year repaired some water problems, replaced carpet and vinyl, had an energy audit completed, bought a refrigerator, painting was done on a unit, asphalt maintenance was done, plumbing repairs, carpet cleaning, and a lot was purchased for \$23,650. The Housing Commission's capital outlays totaled \$39,595 during the current fiscal year.

The Housing Commission did not have any loan activity during the fiscal year.

During 2004 there was a significant change in wages from the prior year (Executive Director hours went from 25 to 35 hours per week and Maintenance hours increased with added maintenance on the various units).

Capital fund improvements were made on both our houses and senior apartments in varying degrees making safer and healthier homes for our tenants.

We invested in a small lot adjoining our property here at Lakeview Manor; and are continually looking into possible purchase of nearby properties for future expansion of our facilities, due to an area need for additional senior apartments. Other than looking into the future for additional housing, there are no significant conditions that would have an effect on our financial position or operations of the East Jordan Housing Commission.

**Overview of the Financial Statements**

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.



EAST JORDAN HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)

December 31, 2004

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**Financial Analysis of the Housing Commission**

The following combined condensed balance sheets show a summary of changes for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$ 274,221	\$ 279,350	\$ ( 5,129)
Property and equipment	<u>300,722</u>	<u>288,997</u>	<u>11,725</u>
Total assets	<u>\$ 574,943</u>	<u>\$ 568,347</u>	<u>\$ 6,596</u>
Current liabilities	<u>\$ 33,298</u>	<u>\$ 22,841</u>	<u>\$ 10,457</u>
Total liabilities	<u>33,298</u>	<u>22,841</u>	<u>10,457</u>
Net assets:			
Invested in capital assets	300,722	288,997	11,725
Unrestricted net assets	<u>240,923</u>	<u>256,509</u>	<u>( 15,586)</u>
Total net assets	<u>541,645</u>	<u>545,506</u>	<u>( 3,861)</u>
Total liabilities and net assets	<u>\$ 574,943</u>	<u>\$ 568,347</u>	<u>\$ 6,596</u>

EAST JORDAN HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)

December 31, 2004

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**Financial Analysis of the Housing Commission (continued)**

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$ 81,929	\$ 79,516	\$ 2,413
Nondwelling rent	<u>2,597</u>	<u>2,094</u>	<u>503</u>
Total operating revenues	<u>84,526</u>	<u>81,610</u>	<u>2,916</u>
<b>Operating expenses:</b>			
Administration	53,212	45,801	7,411
Tenant services	204	508	( 304)
Utilities	24,389	20,573	3,816
Ordinary maintenance and operation	24,909	14,283	10,626
General expenses	10,746	11,747	( 1,001)
Extraordinary maintenance	10,335	6,150	4,185
Depreciation	<u>27,469</u>	<u>25,645</u>	<u>1,824</u>
Total operating expenses	<u>151,264</u>	<u>124,707</u>	<u>26,557</u>
Operating income(loss)	<u>( 66,738)</u>	<u>( 43,097)</u>	<u>( 23,641)</u>
<b>Non-operating revenue (expense):</b>			
Interest income	7,818	7,057	761
Operating grants	39,595	27,683	11,912
Capital grants	14,767	13,605	1,162
Other income	<u>697</u>	<u>678</u>	<u>19</u>
Total nonoperating revenue (expense)	<u>62,877</u>	<u>49,023</u>	<u>13,854</u>
<b>Change in Net Assets</b>	<u><u>\$ ( 3,861)</u></u>	<u><u>\$ 5,926</u></u>	<u><u>\$ ( 9,787)</u></u>

FINANCIAL STATEMENTS

EAST JORDAN HOUSING COMMISSION  
**COMBINED STATEMENT OF NET ASSETS**  
December 31, 2004  
=====

**ASSETS**

Current Assets:

Cash	\$ 39,888
Accounts receivable-HUD other projects	10,107
Accounts receivable-miscellaneous	465
Accounts receivable-dwelling rents	5
Accrued interest receivable	431
Investments-unrestricted	222,632
Prepaid expenses	<u>693</u>

Total Current Assets	<u>274,221</u>
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Property, Plant, and Equipment:

Land	72,957
Buildings	698,919
Equipment	50,878
Building improvements	84,711
Construction in progress	<u>25,102</u>
	932,567
Less: accumulated depreciation	<u>( 631,845)</u>

Net Property, Plant, and Equipment	<u>300,722</u>
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Total Assets	<u><u>\$ 574,943</u></u>
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**LIABILITIES and NET ASSETS**

Current Liabilities:

Accounts payable	\$ 17,683
Tenant security deposit liability	3,050
Accrued expenses	11,949
Deferred revenues	<u>616</u>

Total Current Liabilities	<u>33,298</u>
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Net Assets:

Invested in capital assets	300,722
Unrestricted net assets	<u>240,923</u>

Total Net Assets	<u>541,645</u>
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Total Liabilities and Net Assets	<u><u>\$ 574,943</u></u>
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See notes to financial statements

EAST JORDAN HOUSING COMMISSION  
COMBINED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
Year Ended December 31, 2004  
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**OPERATING REVENUES:**

Dwelling rent	\$ 81,929
Non-dwelling rent	<u>2,597</u>
Total operating revenues	<u>84,526</u>

**OPERATING EXPENSES:**

Administration	53,212
Tenant services	204
Utilities	24,389
Ordinary maintenance and operation	24,909
General expenses	10,746
Extraordinary maintenance	10,335
Depreciation	<u>27,469</u>
Total operating expenses	<u>151,264</u>

Operating income (loss)	<u>( 66,738)</u>
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**NONOPERATING REVENUES:**

Investment interest income	7,818
Other income	697
Operating grants	39,595
Capital grants	<u>14,767</u>

Total nonoperating revenues	<u>62,877</u>
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Change in net assets	( 3,861)
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Net assets, beginning	546,568
Prior period adjustments	<u>( 1,062)</u>
Net assets, ending	<u>\$ 541,645</u>

See notes to financial statements

EAST JORDAN HOUSING COMMISSION  
COMBINED STATEMENT OF CASH FLOWS  
Year Ended December 31, 2004

**Cash flows from operating activities:**

Cash received from dwelling and nondwelling rents	\$ 87,945
Cash payments to other suppliers of goods and services	( 65,082)
Cash payments to employees for services	<u>( 48,311)</u>
Net cash (used) by operating activities	<u>( 25,448)</u>

**Cash flows from noncapital financing activities:**

Adjustments	( 1,062)
Tenant security deposits	( 400)
Operating grants	39,595
Other revenue	<u>232</u>
Net cash provided by noncapital financing activities	<u>38,365</u>

**Cash flows from capital and related financing activities:**

Capital grants	9,287
Payments for capital acquisitions	<u>( 39,194)</u>
Net cash (used) by capital and related financing activities	<u>( 29,907)</u>

**Cash flows from investing activities:**

Increase in restricted investments	( 57,805)
Receipts of interest and dividends	<u>7,681</u>
Net cash (used) by investing activities	<u>( 50,124)</u>

Net increase(decrease) in cash	( 66,052)
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Cash, beginning	<u>107,002</u>
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Cash, ending	<u>\$ 39,888</u>
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EAST JORDAN HOUSING COMMISSION  
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended December 31, 2004  
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Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 39,888
Restricted cash	<u>222,632</u>
Cash and cash equivalents per balance sheet	<u>\$ 262,520</u>

Schedule reconciling operating income to net cash flow from operating activities:

Operating income(loss)	\$( 66,738)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	27,469
Bad debt allowance	( 990)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	2,952
Prepaid expenses	( 60)
Increase (decrease) in liabilities:	
Accounts payable	2,439
Accrued wages/payroll taxes	6,113
Accrued compensated absences	( 2,223)
Accrued payments in lieu of taxes	5,123
Deferred revenues	<u>467</u>
Net cash (used) by operating activities	<u>\$( 25,448)</u>

See notes to financial statements

EAST JORDAN HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of East Jordan Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

The East Jordan Housing Commission is a component unit of the City of East Jordan, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of East Jordan on February 7, 1967, consisting of a five member board appointed by the City Mayor and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the East Jordan Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under contract, the Housing Commission constructed, maintains and operates 28 units of subsidized housing in the City of East Jordan, Michigan.

**Fund Financial Statements**

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

**Fund Accounting**

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities,



equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

### **Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the East Jordan Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### **Insurance**

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

## **Budgets and Budgetary Accounting**

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

## **Receivables**

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience. There were no uncollectible tenant rents as of December 31, 2004.

## **Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets, but were not included in the combined statement of net assets.

## **Fixed Asset Capitalization**

Fixed assets with a cost to acquire or construct of \$600 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	40 years
Equipment and furnishings	5 - 20 years
Building improvements	10 - 20 years

## **Net Assets**

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

## **Operating Revenues and Expenses**

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of

providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

#### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

#### Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation leave, the Executive Director has been given permission by the Board to accumulate 296 hours of unused vacation time. The Executive Director is the only employee eligible to receive vacation benefits during the fiscal year ended December 31, 2004.
- \* Sick leave, there is no accumulation of unused sick days allowed.
- \* Personal leave, there is not a policy for personal leave.

The amount of accumulated benefits at December 31, 2004, was \$3,513, and is recorded as a liability in the Low Rent Program.

#### Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

#### Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

#### **NOTE 2: CASH AND INVESTMENTS**

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States

government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the December 31, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository Balances by Category</u>					<u>Carrying Value</u>
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
Huntington					
National Bank	\$ 91,450	\$	\$	\$ 91,450	\$ 91,065
Bay Winds Federal					
Credit Union	85,268			85,268	85,268
Charlevoix State					
Bank	<u>86,162</u>			<u>86,162</u>	<u>86,162</u>
Total Deposits	<u>\$262,880</u>	<u>\$</u>	<u>\$</u>	<u>\$ 262,880</u>	262,495
Petty cash					<u>25</u>
					<u>\$ 262,520</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					\$ 39,888
Unrestricted investments					222,632
Restricted cash					<u>-</u>
Total					<u>\$ 262,520</u>

### NOTE 3: RECEIVABLES AND PAYABLES

#### Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At December 31, 2004, the receivables were \$5 with none estimated as uncollectible. Bad debt expense was reduced by \$990.

#### Due from HUD

Amounts due from HUD represents advanced funding that was less than the Housing Commission's actual expenses for the programs financed. Balances at December 31, 2004 were as follows:

Capital Fund Program	<u>\$ 10,107</u>
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#### Inter-fund Receivables, Payables, and Transfers

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other programs" and "due to other programs" on the statement of net assets. The Capital Fund Program owes the Low Rent Program \$10,107, as of December 31, 2004.

The capital fund program transferred \$10,000 to the Low Rent Program during the fiscal year ended December 31, 2004.

### NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Balance</u> <u>12/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/04</u>
Low Rent Program				
Land	\$ 49,307	\$ 23,650	\$	\$ 72,957
Buildings	662,141	36,778		698,919
Furniture, equip. & machinery - dwellings	16,490	1,058		17,548
Furniture, equip. & machinery - administration	31,039	727		31,766
Building improvements	<u>83,875</u>	<u>836</u>		<u>84,711</u>
	842,852	<u>\$ 63,049</u>	<u>\$</u>	905,901
Less accumulated depreciation	<u>( 598,630)</u>	<u>\$ ( 33,009)</u>	<u>\$</u>	<u>( 631,639)</u>
Total	<u>\$ 244,222</u>			<u>\$ 274,262</u>

	<u>Balance</u> <u>12/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/04</u>
<b>Capital Fund Program</b>				
Buildings	\$ 36,778	\$	\$ 36,778	\$
Furniture, equip. & machinery - dwellings	758		335	423
Furniture, equip. & machinery - administration	250	891		1,141
Building improvements	834		834	
Construction in progress	<u>11,900</u>	<u>13,202</u>		<u>25,102</u>
	50,520	<u>\$ 14,093</u>	<u>\$ 37,947</u>	26,666
Less accumulated depreciation	<u>( 5,745)</u>	<u>\$ ( 206)</u>	<u>\$ 5,745</u>	<u>( 206)</u>
Total	<u>\$ 44,775</u>			<u>\$ 26,460</u>
<b>Combined Totals</b>				<u>\$ 300,722</u>

**NOTE 5: INVESTED IN CAPITAL ASSETS**

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended December 31, 2004, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	\$ 288,997
	<u>11,725</u>
Balance, ending	<u>\$ 300,722</u>

**NOTE 6: SEGMENT INFORMATION**

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended December 31, 2004, was as follows:

	Low Rent Program	Capital Fund Program
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>		
Dwelling and nondwelling rents	\$ 84,526	\$
Depreciation	( 27,263)	( 206)
Other operating expenses	( 122,159)	( 1,636)
Operating (loss)	( 64,896)	( 1,842)
Nonoperating revenues:		
Operating transfers in(out)	10,000	( 10,000)
Investment earnings	7,818	
Operating grants	27,959	11,636
Capital grants		14,767
Other income	697	
Change in net assets	( 18,422)	14,561
Beginning net assets	501,793	44,775
Prior period adjustments and equity transfers	31,814	( 32,876)
Ending net assets	<u>\$ 515,185</u>	<u>\$ 26,460</u>

#### **Condensed Statement of Cash Flows**

Net cash provided (used) by:		
Operating activities	\$ ( 23,812)	\$ ( 1,636)
Noncapital financing activities	31,249	7,116
Capital and related financing activities	( 24,427)	( 5,480)
Investing activities	( 50,124)	
Net increase (decrease)	( 67,114)	
Beginning cash	107,002	
Ending cash	<u>\$ 39,888</u>	<u>\$</u>

#### **NOTE 7: OTHER INFORMATION**

##### **A. Risk Management and Litigation**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

##### **B. Pension Plan**

The Housing Commission participates with the City of East Jordan in a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer and employee contributions with complete vesting after 10 years of

service. At December 31, 2004, the date of the last completed actuarial evaluation, the City of East Jordan and Housing Commission's combined actuarial accrued liabilities for retirement benefits was \$2,758,820 (employer and employee combined). Assets available to meet this obligation were \$2,336,763, for an unfunded accrued liability of \$422,057. The Housing Commission did not have to contribute to the plan, but each employee contributes 3% of compensation. A copy of the MERS report can be obtained from MERS by calling (800) 767-6377.

#### **C. Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

#### **D. Implementation of New Accounting Standard**

As of and for the year ended December 31, 2004, the Housing Commission implemented GASB Statement Number 34 - Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

#### **E. Prior Period Adjustments, Equity Transfers and Correction of Errors**

##### Low Rent Program

Prior year administration benefits	\$( 1,062)
Equity transfer from completed CFP 501-01	<u>32,876</u>
	<u>\$ 31,814</u>

##### Capital Fund Program

Equity transfer to Low Rent Program	<u>\$( 32,876)</u>
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SUPPLEMENTARY INFORMATION

EAST JORDAN HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
December 31, 2004  
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 39,888	\$ 10,107
Accounts receivable-HUD other projects		10,107
Accounts receivable-miscellaneous	465	
A/R-tenants-dwelling rents	5	
Accrued interest receivable	431	
Investments-unrestricted	222,632	
Prepaid expenses	693	
Due from other programs	<u>10,107</u>	
Total current assets	<u>274,221</u>	<u>10,107</u>
Property, plant, and equipment:		
Land	72,957	
Buildings	698,919	
Equipment	49,314	1,564
Building improvements	84,711	
Construction in progress		<u>25,102</u>
	905,901	26,666
Less accumulated depreciation	<u>( 631,639)</u>	<u>( 206)</u>
Net property, plant and equipment	<u>274,262</u>	<u>26,460</u>
Total Assets	<u>\$ 548,483</u>	<u>\$ 36,567</u>
<b>LIABILITIES and NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 17,683	\$
Tenant security deposit liability	3,050	
Accrued expenses	11,949	
Deferred revenues	616	
Due to other programs		<u>10,107</u>
Total current liabilities	<u>33,298</u>	<u>10,107</u>
Net assets:		
Invested in capital assets	274,262	26,460
Unrestricted net assets	<u>240,923</u>	
Total net assets	<u>515,185</u>	<u>26,460</u>
Total Liabilities and Net Assets	<u>\$ 548,483</u>	<u>\$ 36,567</u>

Totals

\$ 39,888  
10,107  
465  
5  
431  
222,632  
693  
10,107

284,328

72,957  
698,919  
50,878  
84,711  
25,102  
932,567  
( 631,845)

300,722

\$ 585,050

\$ 17,683  
3,050  
11,949  
616  
10,107

43,405

300,722  
240,923

541,645

\$ 585,050

EAST JORDAN HOUSING COMMISSION  
**COMBINING STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS**  
 Year Ended December 31, 2004  
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 81,929	\$
Nondwelling rent	<u>2,597</u>	<u></u>
Total operating revenues	<u>84,526</u>	<u></u>
<b>OPERATING EXPENSES:</b>		
Administration	51,576	1,636
Tenant services	204	
Utilities	24,389	
Ordinary maintenance and operation	24,909	
General expenses	10,746	
Extraordinary maintenance	10,335	
Depreciation	<u>27,263</u>	<u>206</u>
Total operating expenses	<u>149,422</u>	<u>1,842</u>
Operating income (loss)	<u>( 64,896)</u>	<u>( 1,842)</u>
<b>NONOPERATING REVENUES:</b>		
Operating transfers in(out)	10,000	(10,000)
Investment interest income	7,818	
Other income	697	
Operating grants	27,959	11,636
Capital grants	<u></u>	<u>14,767</u>
Total nonoperating revenues	<u>46,474</u>	<u>16,403</u>
Change in net assets	( 18,422)	14,561
Net assets, beginning	501,793	44,775
Prior period adjustments and equity transfers	<u>31,814</u>	<u>(32,876)</u>
Net assets, ending	<u>\$ 515,185</u>	<u>\$ 26,460</u>

Totals

\$ 81,929  
2,597

84,526

53,212  
204

24,389

24,909

10,746

10,335

27,469

151,264

( 66,738)

7,818

697

39,595

14,767

62,877

( 3,861)

546,568

( 1,062)

\$ 541,645

EAST JORDAN HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
Year Ended December 31, 2004

=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>Cash flows from operating activities:</b>		
Cash received from dwelling and nondwelling rents	\$ 87,945	\$
Cash payments to other suppliers of goods and services	( 63,446)	( 1,636)
Cash payments to employees for services	( 48,311)	
Cash payments for in lieu of taxes	<u>( )</u>	
Net cash (used) by operating activities	<u>( 23,812)</u>	<u>( 1,636)</u>
<b>Cash flows from noncapital financing activities:</b>		
Adjustments	( 1,062)	
Operating transfers in(out)	10,000	( 10,000)
Interfund payables/receivables	( 5,480)	5,480
Tenant security deposits	( 400)	
Operating grants	27,959	11,636
Other revenue	<u>232</u>	
Net cash provided by noncapital financing activities	<u>31,249</u>	<u>7,116</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grants		9,287
Payments for capital acquisitions	<u>( 24,427)</u>	<u>( 14,767)</u>
Net cash (used) by capital and related financing activities	<u>( 24,427)</u>	<u>( 5,480)</u>
<b>Cash flows from investing activities:</b>		
Increase in restricted investments	( 57,805)	
Receipts of interest and dividends	<u>7,681</u>	
Net cash (used) by investing activities	<u>( 50,124)</u>	
Net increase(decrease) in cash	( 67,114)	
Cash, beginning	<u>107,002</u>	
Cash, ending	<u>\$ 39,888</u>	<u>\$</u>

Totals

\$ 87,945

( 65,082)

( 48,311)

( )

( 25,448)

( 1,062)

( 400)

39,595

232

38,365

9,287

( 39,194)

( 29,907)

( 57,805)

7,681

( 50,124)

( 67,114)

107,002

\$ 39,888

EAST JORDAN HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
Year Ended December 31, 2004  
=====

	Low Rent	Capital
	Program	Fund
	Program	Program
	<u>14.850</u>	<u>14.872</u>

**Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:**

Cash	\$ 39,888	\$
Unrestricted cash	<u>222,632</u>	<u>          </u>
Cash and cash equivalents per balance sheet	<u>\$ 262,520</u>	<u>\$</u>

**Schedule reconciling operating income to net cash flow from operating activities:**

Operating income(loss)	\$ ( 64,896)	\$ ( 1,842)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	27,263	206
Bad debt allowance	( 990)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	2,952	
Prepaid expenses	( 60)	
Increase (decrease) in liabilities:		
Accounts payable	2,439	
Accrued wages/payroll taxes	6,113	
Accrued compensated absences	( 2,223)	
Accrued payments in lieu of taxes	5,123	
Deferred revenues	<u>467</u>	<u>          </u>
Net cash (used) by operating activities	<u>\$ ( 23,812)</u>	<u>\$ ( 1,636)</u>



Totals

\$ 39,888  
222,632

\$ 262,520

\$ ( 66,738)

27,469  
( 990)

2,952  
( 60)

2,439  
6,113  
( 2,223)

5,123  
467

\$ ( 25,448)

EAST JORDAN HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended December 31, 2004  
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 27,959
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	<u>26,403</u>
	Total		<u>\$ 54,362</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the  
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

## EAST JORDAN HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE

Year Ended December 31, 2004

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 39,888	\$
100	Total cash	<u>39,888</u>	
	Receivables:		
122	A/R-HUD other projects		10,107
125	A/R-miscellaneous	465	
126	A/R-tenants-dwelling rents	5	
129	Accrued interest receivable	<u>431</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>901</u>	<u>10,107</u>
	Current Investments:		
131	Investments-unrestricted	<u>222,632</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	693	
144	Interprogram due from	<u>10,107</u>	
	Total other current assets	<u>10,800</u>	
150	Total current assets	<u>274,221</u>	<u>10,107</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	72,957	
162	Buildings	698,919	
163	Furn, equip & mach-dwellings	17,548	423
164	Furn, equip & mach-admin.	31,766	1,141
165	Building improvements	84,711	
166	Accumulated depreciation	( 631,639)	( 206)
167	Construction in progress		<u>25,102</u>
160	Total fixed assets, net of accumulated depreciation	<u>274,262</u>	<u>26,460</u>
180	Total noncurrent assets	<u>274,262</u>	<u>26,460</u>
190	Total Assets	<u>\$ 548,483</u>	<u>\$ 36,567</u>

Totals

\$ 39,888

39,888

10,107

465

5

431

11,008

222,632

693

10,107

10,800

284,328

72,957

698,919

17,971

32,907

84,711

( 631,845)

25,102

300,722

300,722

\$ 585,050

EAST JORDAN HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
Year Ended December 31, 2004  
=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES AND EQUITY/NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 7,368	\$
321	Accrued wage/payroll taxes payable	8,436	
322	Accrued compensated absences	3,513	
333	Accounts payable-other government	10,315	
341	Tenant security deposits	3,050	
342	Deferred revenues	616	
347	Interprogram due to	<u>          </u>	<u>10,107</u>
310	Total current liabilities	<u>33,298</u>	<u>10,107</u>
300	Total liabilities	<u>33,298</u>	<u>10,107</u>
	Equity:		
508.1	Invested in capital assets	<u>274,262</u>	<u>26,460</u>
508	Total equity	274,262	26,460
	Net Assets:		
512.1	Unrestricted net assets	<u>240,923</u>	<u>          </u>
513	Total net assets	<u>515,185</u>	<u>26,460</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 548,483</u>	<u>\$ 36,567</u>

Totals

\$ 7,368

8,436

3,513

10,315

3,050

616

10,107

43,405

43,405

300,722

300,722

240,923

541,645

\$ 585,050

EAST JORDAN HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
Year Ended December 31, 2004  
=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 81,929	\$
704	Tenant revenue-other	<u>2,597</u>	
705	Total tenant revenue	84,526	
706	HUD PHA grants	27,959	11,636
706.1	Capital grants		14,767
711	Investment income-unrestricted	7,818	
715	Other revenue	<u>697</u>	
700	Total revenue	<u>121,000</u>	<u>26,403</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	29,507	
912	Auditing fees	1,600	
914	Compensated absences	( 2,223)	
915	Employee benefit contributions-adm.	15,696	
916	Other operating-administrative	6,996	1,636
	Tenant Services:		
924	Tenant services-other	204	
	Utilities:		
931	Water	9,538	
932	Electricity	7,189	
933	Gas	7,662	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	6,571	
942	Ordinary maint & oper-mat'ls & other	4,699	
943	Ordinary maint & oper-contract costs	13,212	
945	Employee benefit contributions-ordinary maintenance	427	
	General expenses:		
961	Insurance premiums	6,613	
963	Payments in lieu of taxes	5,123	
964	Bad debt-tenant rents	<u>( 990)</u>	
969	Total operating expenses	<u>111,824</u>	<u>1,636</u>
970	Excess operating revenue over operating expenses	<u>9,176</u>	<u>24,767</u>

Totals

\$ 81,929  
2,597  
84,526  
39,595  
14,767  
7,818  
697

147,403

29,507  
1,600  
( 2,223)  
15,696  
8,632

204

9,538  
7,189  
7,662

6,571  
4,699  
13,212

427

6,613  
5,123  
( 990)

113,460

33,943



EAST JORDAN HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended December 31, 2004  
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	<u>9,176</u>	<u>24,767</u>
	<b>Expenses continued:</b>		
	Other expenses:		
971	Extraordinary maintenance	10,335	
974	Depreciation expense	<u>27,263</u>	<u>206</u>
	Total other expenses	<u>37,598</u>	<u>206</u>
900	Total expenses	<u>149,422</u>	<u>1,842</u>
	<b>Other financing sources(uses):</b>		
1001	Operating transfers in(out)	<u>10,000</u>	<u>( 10,000)</u>
1010	Total other financing sources(uses)	<u>10,000</u>	<u>( 10,000)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	( 18,422)	14,561
1103	Beginning Net Assets	501,793	44,775
1104	Prior period adjustments, equity transfers and correction of errors	<u>31,814</u>	<u>( 32,876)</u>
	Ending Net Assets	<u>\$ 515,185</u>	<u>\$ 26,460</u>

Totals

33,943

10,335

27,469

37,804

151,264

( 3,861)

546,568

( 1,062)

\$ 541,645

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

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Traverse City, Michigan 49686  
(231) 946-8930  
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**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
East Jordan Housing Commission  
East Jordan, Michigan

We have audited the financial statements of the business-type activities of the East Jordan Housing Commission, Michigan, (Housing Commission) as of and for the year ended December 31, 2004, which collectively comprise the Housing Commission's basic financial statements and have issued our report thereon dated July 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Compliance and on Internal Control  
In Accordance with Government Auditing Standards  
East Jordan Housing Commission  
Page Two

**Compliance and Other Matters (continued)**

compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we have noted certain matters that we reported to management of the Housing Commission, in a separate letter dated July 6, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sandy E. Audette, CPA, PC*

July 6, 2005

EAST JORDAN HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

DECEMBER 31, 2004

EAST JORDAN HOUSING COMMISSION  
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DECEMBER 31, 2004

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**Barry E. Gaudette, CPA, P.C.**

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**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
East Jordan Housing Commission

We have audited the financial statements of the East Jordan Housing Commission ("Housing Commission") as of and for the year ended December 31, 2004, and have issued our report, thereon, dated July 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

*Sary E. Tawil, CPA, PC*

July 6, 2005



**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

To the Board of Commissioners  
East Jordan Housing Commission

We have audited the financial statements of the East Jordan Housing Commission ("Housing Commission") as of and for the year ended December 31, 2004, and have issued our report, thereon, dated July 6, 2005. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, P.C.*

July 6, 2005

EAST JORDAN HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
December 31, 2004  
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**Acceptance of Cash**

Currently the Housing Commission accepts cash, checks and money orders.

We recommend that the Housing Commission consider adopting a "no cash accepted" policy. There may be some exceptions allowed as determined by the Board.

**Tenant Accounting Software**

Currently the Housing Commission mails their fee accountant monthly information on changes in tenants rent and receives back a rent roll printout. As tenants make their payments the amount and date of the payment is recorded on this printout. At the end of the month when the monthly information is mailed to the fee accountant this printout is also included.

While we believe this appears to be an adequate internal control, we also recommend the Housing Commission consider purchasing a tenant software accounting package from a vendor. Most of the Housing Commissions in Michigan have already implemented this control.

**Backing up the Computer**

Since the Housing Commission does not currently use the computer for check writing or tenant software accounting, there does not appear to be a great need to back up the computer.

We recommend that the Housing Commission consider backing up on at least a weekly basis the information that is on the computer. This backup disk or CD, should be either stored off site or kept in a fireproof safe or file cabinet at the office.

EAST JORDAN HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
December 31, 2004

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries necessary.